

**COMMISSION ON THE NATIONAL GUARD
AND RESERVES**

HEARING ON RESOURCING AND READINESS

**SERVICE POLICY, BUDGET, AND PROGRAMMING
OFFICIALS**

FEATURED WITNESSES:

**REAR ADMIRAL STANLEY D. BOZIN, USN,
DIRECTOR, OFFICE OF BUDGET,
OFFICE OF THE ASSISTANT SECRETARY OF THE NAVY
FOR FINANCIAL MANAGEMENT AND COMPTROLLER**

**MAJOR GENERAL FRANK R. FAYKES, USAF,
DEPUTY ASSISTANT SECRETARY FOR BUDGET,
OFFICE OF THE ASSISTANT SECRETARY OF THE AIR FORCE
FOR FINANCIAL MANAGEMENT AND COMPTROLLER**

**THE HONORABLE NELSON M. FORD,
ASSISTANT SECRETARY OF THE ARMY
FOR FINANCIAL MANAGEMENT AND COMPTROLLER**

**10:45 A.M. – 12:15 P.M.
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ARNOLD PUNARO: Well, our witnesses are ready. I'm going to round up a few more of our commissioners so they can make sure they hear the testimony. Have the staff round up our commissioners while I give my opening statement.

The commission will come back to order. Our second panel today consists of senior financial managers for each of the military departments. They have the difficult job of creating a budget within their limited (top ?) line to best provide resources for their military department, secretaries and service chiefs to fulfill their Title 10 assigned responsibilities to man, train, equip, deploy, mobilize, supply ready forces for the combatant commanders.

They also manage the funds appropriated by Congress and most continuously balance competing priorities such as investments in modernization and transformation versus unplanned and always day-to-day operational needs that crop up in the Department of Defense whether we're engaged in heavy combat as we are now or just in routine peacetime. There's always unexpected contingencies that our Department of Defense has to meet. Unforeseen costs that must be offset by reducing resources and plan programs and continuous planning for the next emergent requirement that was not included in the budget request. So these are extremely difficult, complex, and ever changing jobs.

For the past six years, this has been exacerbated by the ongoing wars in Iraq and Afghanistan. Last night our commission was briefed by each of the services' chief deputies for programming and budgeting and that was very helpful and very enlightening. We got very good information on the nature and magnitude of each of the services' readiness, areas and their strategies to fix them that need fixing in the coming years.

This morning's panel – we have a senior DOD leadership perspective on the situation both from financial side and the comptrollers and the requirement and the equipping side from the undersecretary for acquisition and technology and we also got the long-term view on the plans to improve the readiness above the active and reserve components.

So the service panel here now will be able to give us some insight from their perspective and to the effects of these plans on longstanding programs, what risks are being accepted to fund future readiness, and what other competing plans may interfere as out your dollars, move through the PPBES cycle. So for this panel we welcome the Honorable Nelson Ford the assistant secretary of the Army for Financial Management and Comptroller; Rear Admiral Stanley D. Bozin, director of the Office of Budget and director of the Financial Management Division, Office of the Assistant Secretary of the Navy for Financial Management and Comptroller; and Major General Frank Faykes,

deputy assistant secretary for budget, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller.

So I'll thank all of you for being here this morning. As I said at the outset for other two distinguished panel members, for those of us on the commission that had dealt with the Department of Defense through most of our careers, we appreciate and respect the professionalism and competency of the financial management and comptroller organizations not just at OSD, but in the services. And while we never like to pick favorites, if you go and look history of the Department of Defense, these are organizations that have always been at the top of the heap when it comes to the professionalism, the dedication and abilities and the country relies on the financial management.

In the business world, certainly – and I hate to say it as a business man – the financial side of the house is kind of getting primacy sometimes over the operational side of the house, because of just the Sarbanes-Oxley, but in government really your jobs are among the most important. You don't get a lot of credit. Your staffs don't get a lot of credit, but certainly those of us that long careers looking at this, we certainly appreciate it and respect the professionalism and dedication of the organizations and what you accomplish in balancing all these very difficult competing demands.

We asked you to take a look at some of those challenges. For example, in the Army a year ago, Mr. Ford was not planning for a very large increase of his active duty end strength that I know for a fact that you've had to change a lot of priorities and resourcing for that. You also have a lot of equipping issues you're dealing with. You've got the Guard and Reserve issues. And the Navy dealing with similar issues on the Navy side of the house. The Marine Corps, of course, is heavily committed operationally – the active and reserve – and certainly in the Air Force we heard last night from some of your programmers about the very serious concerns the chief and the secretaries, as well as I know the men and women in uniform of the Air Force, have about the aging of the equipment and all the other things that – not just the strain of Iraq and Afghanistan, but the strain of the whole department situation over the last 10 to 15 years.

So a lot of these bills – long standing bills as well as near term bills are coming to it, so that makes your job even more difficult. So we thank you for being here this morning and for your service to the nation. Without objection, any prepared statements will be made part of the record and we'll start – with the testimony we'll start with you, Mr. Ford.

Nelson, why don't you grab that mike a little closer and push the button there? When the red light's on, it's working.

HON. NELSON FORD: Thank you, Mr. Chairman. Distinguished members of the Commission, thank you for the opportunity to participate in one of the most important efforts associated with shaping the military.

The Army greatly appreciates your work, your thoughtfulness, your interest in and dedication to our citizen-soldiers. Through the most extreme necessity – that of defending the United States in the age of vicious, unprecedented global terrorism – the roles of the National Guard and the U.S. Army Reserve have changed dramatically.

As you are well aware, today's citizen-soldiers constitute a critical component of our operational force. Rather than being a rarely tapped strategic reserve, the Army now relies on the National Guard and Reserve to accomplish our missions around the world and as always, the Guard and Reserve remain the primary force for defending the homeland and addressing other domestic requirements such as natural disaster response.

To make the National Guard and the Army Reserve as effective as possible in their expanded operational roles, three prerequisites must be met. First, adequate funding to train and equip Guard and Reserve units. Second, a policy that permits assured and predictable access to these troops, and third acknowledgement by families, soldiers, employers and government, both federal and state, of the new role of the reserve component. Unless all three of these prerequisites are fulfilled, in the long run, the Army's ability to defend and protect the nation could be compromised.

As the Army's chief financial officer, I am most concerned about the funding challenges inherent in adapting the role of the reserve component to today's mission. The Army for years did not receive enough funding to accomplish all of its assigned missions. Since 2001, the Army's budget has increased, but so have our obligations and requirements.

Last year, for the first time the financial management and comptroller team developed a comprehensive formula to determine the Army's true cost. Based on the mission set forth in the 2006 Quadrennial Defense Review it addressed the needs of the whole Army: active, guard and reserve. Our model, which was reviewed and validated within and outside the Department of Defense, estimated that the annual baseline cost of the peacetime Army was \$138 billion in fiscal '08 dollars. That is the amount of money that needs to be spent every year in perpetuity to sustain the peacetime Army.

As you may be aware, the Army has been for some time concerned about a strategy resource mismatch. This figure illuminated the substantial challenge we face. Our baseline appropriations do not meet this threshold and this threshold does not include the operational cost of the Global War on Terrorism or other deployments.

Since then, Army requirements have continued to grow. The \$138 billion estimate from last spring did not include the president's recent decision to raise active army end strength permanently to 540,000 and to add 8,200 soldiers to the Army National Guard and 1,000 to the Army Reserve. The cost associated with the recently announced mobilization and deployment policy for reserve units was also not included in the estimate.

We expect that major changes to our training regimen and support activities for the reserve component will be needed to implement these guidelines successfully. We are in the process of determining the precise numbers, but we know already that they will add billions of dollars to the cost of the Army. The Army is committed to implementing these changes. As we proceed, all resourcing decisions will be made according to operational necessity. The Army must be able to deploy a reserve unit as easily and as readily as an active-component unit.

As part of our commitment to the reserve components, we are planning to spend almost \$37 billion for National Guard equipment and over \$10 billion for Army Reserve equipment between fiscal 2005 and fiscal 2013, which is the end of our planning horizon. And at that point we will not have completed equipping either the active force or the reserves to their modified table of organization and equipment, so we still have holes in our yard that extend out past the end of the planning period.

However, we don't expect the Army's full financial requirements will be received through the appropriations process and there will always be resourcing tradeoffs to be made in the budgeting process. It is our responsibility to ensure that resource allocation reflects the assignment synchronization embedded in the Army force generation model and treats active and reserve units equally, so that our resourcing process is fair to all. Whatever unit, reserve or active, is in the next to deployment queue will be at the top of our resourcing priority list.

The Army is cognizant of the National Guard's unique homeland obligations and we will make every effort possible to keep the reserve component prepared to answer a domestic call for duty, either by the governors or by the president. Thank you for including my formal statement. Let me reiterate that the Army is completely committed to doing what is best for national security and for our troops regardless of component designation. And I would also like to commend our guardsmen and reservists for their magnificent performance around the world and at home.

I look forward to your questions in our discussion. Thank you.

MR. PUNARO: Thank you.

General Faykes.

MAJOR GENERAL FRANK R. FAYKES: Good morning Mr. Chairman and distinguished commission members and thank you for the opportunity to be here this morning.

Mr. John Vonglis our Comptroller of the Air Force is unable to be here, because he's currently performing his two weeks of Army Reserve duty down at the MacDill Air Force Base, so we truly are a total force United States Air Force.

I am pleased to represent the Air Force financial management and comptroller leadership to talk about how we resource the Air National Guard and the Air Force Reserve. We are one team, an integrated total force for the defense of our great nation. This unified team has heavily engaged around the world waging the Global War on Terror and ensuring the president has sovereign options for defending the nation, its ideals and its interests. We're not just standing still on this point: we're evolving our total force integration efforts to provide growing and emerging mission areas to the Air Reserve component, so the nation can continue to be confident of success in the warfighting domains of air, space and cyberspace.

Total force integration does not happen simply by policy or practice. It requires resourcing decisions to provide equal capability and training to all of our components. As our Chief of Staff, General Moseley testified in December of 2006 we organize, train and equip our total force so the warfighter gets the right efforts each and every time and is unable to tell who was active duty, who was a reservist or who was a guardsman. We are all airmen and our operations are seamless. We consider the total force in everything we do as an air force, from budgeting to policymaking to organizing to mission assignments to deploying forces at home and abroad.

The Air Force uses a corporate structure for resource decisions from execution through programming and the Air National Guard and the Air Force Reserve are full, equal members represented by Lieutenant General McKinley, the director of the Air National Guard, and Lieutenant General Bradley, the chief of the Air Force Reserve, and their staffs.

Our corporate structure ensures that the Air Reserve component concerns and requirements raised and adjudicated in light of the resource constraints on the total air force. In the last Program Objective Memorandum or POM cycle alone, the Air Force allocated an additional \$2.5 billion to the Air Reserve component for total force initiatives. These growing missions include UAVs, intelligence, space operations, and frontline combat and mobility aircrafts such as the F-22 and the C-17. Our investment in these missions will ensure the reserve component continues to be equipped with cutting edge technology and are trained to effectively use them to meet future warfighting needs.

The Air Force budget for fiscal year 2008 is \$110.7 billion. Of this, 89 percent supports our active duty accounts as well as a total force modernization and recapitalization accounts. The remaining 11 percent supports the operations and personnel cost for the reserve component. This percentage has remained relatively constant for over 15 years. The Air National Guard and the Air Force Reserve component are full partners in the discussion and resolution of how we bridge the gap between a demand for air, space and cyberspace capabilities and the funding and the manpower that we have. We are convinced that our total force integration efforts are the right plan for doing this in a fiscally responsible manner, while continuing to focus on support for the warfighter.

Thank you Mr. Chairman and commission members for your interest in our Air Reserve component and I look forward to answering your questions.

MR. PUNARO: Thank you.

Admiral Bozin.

REAR ADMIRAL STANLEY D. BOZIN: Chairman Punaro, distinguished members of the Commission, thank you for the opportunity to speak today about the Department of Navy resourcing of its Navy and Marine Corps Reserve.

Our mission at the assistant secretary of the Navy Financial Management and Comptroller is to direct and manage financial management activities in the Department of the Navy. This means on the one hand overseeing the management of the annual budget and supporting processes and on the other hand providing independent analysis to our constituent clients. We provide – inform recommendations to the senior leadership of the Department of the Navy regarding the efficient and effective allocation of all financial resources, active and reserve.

Consistent with the national security priorities for the president and the Secretary of Defense, the Navy and the Marine Corps Reserve have always been and will continue to be an important element of the department's total force. In the words of the chief of naval operations, with the Navy's Reserve playing such a vital role in our day-to-day operations, it is imperative that we continue to properly assess and fund reserve personnel and readiness requirements now and in the future.

In the words of the commandant of the Marine Corps, our fights thus far in Iraq and Afghanistan have been a total force effort. Our reserves have once again performed with grit and determination and we may have to ask them to do more. However, as our Marines have made it abundantly clear, when there is a fight, they want to be part of it. I have a prepared statement, which I appreciate that will be accepted. This document outlines resourcing of the Department of the Navy Reserve components and the planning, programming, budgeting and execution process and how the Reserve components fit into the combatant commander and Joint Chiefs of Staff's budget process.

Mr. Chairman, Reserve component sailors and Marines serve selflessly and are fully integrated throughout the Department of Defense. With our coalition partners and with every civil agency, these dedicated men and women leverage the department's investment in training and maintain a continuum of service. They answer our country's call in time of need.

Thank you for devoting your time and expertise to this commission as you help to strengthen our national defense. I look forward to answering your questions.

MR. PUNARO: Thank you. Let me start with focusing a little bit on the budget and then a kind of a question that I asked our earlier panel about the cost of the reserves

and guards versus the cost of the active, but first of all, Secretary Ford, as I understand it, the Army believes steady state peacetime requirement for all your validated requirements is roughly \$138 billion a year.

MR. FORD: Correct.

MR. PUNARO: Now, and I certainly have not followed it in as great a detail perhaps as I should, but as I recall, the Army's budget request to Congress this year is \$128 billion. Is that not correct?

MR. FORD: It's about \$121 billion.

MR. PUNARO: \$121 billion – so there's a pretty big gap between what you requested and \$138 billion. Is that not correct?

MR. FORD: That's correct.

MR. PUNARO: Secondly, it was my understanding from the briefing we've got from the Army last night that there were some additional funds allocated to the Army and they were reflected in the budgeting years and it was a fairly large wedge, but it didn't appear to me that that wedge even covered the cost of the active duty increase and all the equipping and supporting that would go with that.

I think the wedge was something in the \$70 billion range.

MR. FORD: I think what you're referring to was the wedge for growing the Army, that's increasing the end strength across the – (unintelligible) – and the people equipment and training associated with that, yes.

MR. PUNARO: But in your judgment is that wedge going to cover the actual cost?

MR. FORD: I don't think we know yet. We're still in the planning process, figuring out exactly what kind of units to build and exactly what years to build them in –

MR. PUNARO: Some earlier estimates I saw and certainly you're not held with these and the Army is not held with these, but kind of back of the envelope rough order magnitude where you look at the number of people and everything that goes with that I've seen some analytical figures that it was in the range of about \$100 billion to get it all done and then about \$20 billion a year in sustaining cost. Does that sound high or does that sound in the ball park?

MR. FORD: I don't have a good sense for that and let me explain why. The estimate – the \$70 billion wedge was really just that. The decision to grow the Army was done right at the end of the budget process. There are a whole series of issues that

weren't incorporated in the '08 budget, some of which have been incorporated in the '08 supplemental request, which we have also provided.

How that works in a elaboration of '09 through '13 or '10 through '15, I think is unclear and we won't really know that. The estimate is probably a little low, but I'm not sure I'd say it's \$30 billion.

MR. PUNARO: Right. And again, you'll get more precision as you have more details on exactly what you're going to do, which is totally understandable, but I think my point is that you've already identified a peacetime steady state that is higher than what the budget requests were. I think most people believe, and you said you suspect, but you're certainly not on the record on this, that the wedge that's in there may not be sufficient.

It may be sufficient, but it might be a little low. So there's another kind of hole that's got to be filled and of course from our perspective, you know, one of the things our March 1 report showed was that there is a lot of equipment funding for the Guard and Reserve in the out years that it doesn't materialize because things get reprioritized. By the way, it's the same for the active component as well.

So it kind of looks to me right now like the Army is still going to be playing kind of catch up, so it worries us a little bit about and that's one of the reasons for the hearing today, how these things are going to get prioritized and of course, this has zero requirements from DHS for support for Homeland Defense, civil military support. Secretary Gates has now announced that he supports our recommendation. That doesn't mean every requirement they send to the Army you're going to validate. You may not validate any of them, you may validate all of them and they've got to compete, so you're kind of starting in a hole before you ever even get the Guard's homeland security requirements from DHS. Correct?

MR. FORD: Well, I saw the briefing that General Speakes provided last night and he's got a slide in there that points out that the current demand is greater than what the QDR strategy implies, which is greater than the resources, and that's been our analytic position. That's what the analysis supports.

We know that we will have holes in equipping. We know that we will have shortfalls in facilities. We know that we will have shortfalls in training. We will not have shortfalls in paying soldiers. That's the first thing we always do out after the end of the – (unintelligible) – period.

MR. PUNARO: And I should add parenthetically the other military departments, maybe not the same areas, but they had similar shortfalls as well, so it's not unique to the Army; it's a department-wide issue.

All right. That's very helpful on that one particular stuff. Let me go back to talking about when you program for the cost of an active duty soldier or a guard/reserve

soldier, Secretary Patterson, Dave Patterson from the Comptroller shop, said that they're currently using a fully burdened cost of an Army infantryman around \$119,000 a year for programming purposes and I believe the Reserve was 35K and the Guard was 33K. Does that sound about right to you for Army purposes?

MR. FORD: My guess is that's an analysis we provided to the comptroller.

MR. PUNARO: Okay. Are you aware of any analysis in the Army that would suggest that the Guard and Reserve is more expensive than the active duty Army?

MR. FORD: I think, actually this analysis we did last year has opened the door to that question and that's analysis we are presently engaged in. It's not the cost of the soldier that's important. It's the cost of the soldier, the equipping of the soldier, training the soldier and the frequency with which the unit is used, and so the relationship of using an active duty unit either every third year or every second year or actually more frequently than that, which is how our active units are currently being used.

And the reserve units are being used every sixth year or every fifth year, so there are a whole set of variables in determining what type of unit – heavy, light, brigade combat team, CS, CSS units – to understand what the relative cost per, if you will, deployable day are between the Reserve components and active components and we're beginning that analysis now.

MR. PUNARO: Right. I understand that's kind of a return on investment analysis. It's not a cost-benefit analysis.

MR. FORD: I don't –

MR. PUNARO: Well, let me help you out a little bit here. Let me ask you this. Does every Army tank that the active duty Army has, does it go out and train every day?

MR. FORD: The standards are 800 miles a year.

MR. PUNARO: Right, so on any given day in a tank park, there are a lot of Army tanks that aren't running.

MR. FORD: That's correct.

MR. PUNARO: How about Army trucks? Do they run every day?

MR. FORD: Probably not.

MR. PUNARO: Okay, so my point is if you're going to basically say we're going to do an analysis that says the Guard is really expensive because we don't deploy them as much as we deploy the Army, I think you're going to have to go back and adjust your

baseline for all the Army gear that you buy for the active military that doesn't train or deploy every day either. Do you follow me?

MR. FORD: Actually, the approach to this analysis is really to look at equipment as a depreciable asset so that we've taken each category, each class of equipment and depreciated it over its life. And we can do that by unit and separate for the Reserve components and active components. I think we'll get a pretty good sense of what the cost per deployable day against very different standards of deployment were currently deploying much more rapidly than is our doctrine, so we can reflect that in the model. We're happy to share that analysis one day.

MR. PUNARO: Okay. Let me ask Admiral Bozin if – does every Navy ship steam every day?

ADM BOZIN: No, sir.

MR. PUNARO: Do you think we ought to start doing an analysis of the cost of a Navy ship based on the number of days it deploys during its 50-year or 40-year life?

ADM BOZIN: No, sir.

MR. PUNARO: Okay. I think we need to have some – I understand why this analysis is being done, but I think to somehow suggest that it costs more to the taxpayer to have a brigade in the National Guard than it does to have a brigade in the active Army – you're going to have some big skeptics to convince on that front.

And none of the other military departments analyze their equipment needs in that fashion and I think if we did it that way, the Navy's cost are going to just go through the roof, because they don't deploy their ships every day and this has nothing to do with whether it's active or reserve equipment.

So we look forward to working with you on that analysis.

MR. FORD: Good. This is an interesting analysis and I spent most of my career in the private sector, not in the government. I know it's very difficult to run a business if you don't treat your assets as if they're depreciable assets.

If you presume that the 2.5 tone truck built in 1969 is as effective as a new family of medium tactical vehicles as today, you probably haven't made the right assumption about what the benefits associated with those two vehicles are.

MR. PUNARO: To give you the last word on this, tell me the analytical or the reason why you would want to do this analysis in this fashion. What is it you expect to learn from this approach?

MR. FORD: This was occasioned by a question from a prior chief of staff who said, I wonder what it would cost to have the Army that we say we have. That was a pretty interesting question. What would it cost to sustain the Army with all the people that it's supposed to have, with the training missions it's supposed to have, with the equipment it's supposed to have? What would it cost to do that? And so he occasioned this analysis and I think it's helped us think a lot about how you make prioritizations because it doesn't help to have all the vehicles you need and no money to train or it doesn't help to have substandard facilities which impact your ability to recruit and retain the force.

And so it helps us understand what the appropriate balance between the various types of investments, people, equipment, facilities, and training – four things we do – how to balance those various investments and that's how we're using it.

MR. PUNARO: Great, thanks.

Commissioner McKinnon.

DAN MCKINNON: (Off mike.) You talked a little bit about the troops being out in the field and they have the first priority and there's an old expression that we had in the Navy called FMC or fully mission capable and we've got a big force, but we're really not fully mission capable.

If we're doing that, we're just mission capable out in the field and everything else is just sort of sitting out there someplace. And so like in business or just-in-time kind of an inventory and we've got an inventory to support the guys out there, but nobody (out ?)elped, which doesn't seem to me like a very well – very good way to run a military that you want everybody to be fully mission capable.

Now the GAO says the Reserve units won't be fully funded until 2019 at least to 80 or 90 percent. Do you believe that will really happen? That the funds will be there by 2019 to make it 80 or 90 percent?

MR. FORD: I certainly hope so.

MR. MCKINNON: No, but I mean –

MR. FORD: And I can't promise that it will be there. That's the Congress' job. What we can do is we can explain to the public, to the administration and to Congress what it takes in terms of financial resources to build the Army and the other services as required by the National Military Strategy and the National Defense Strategy and the Quadrennial Defense Review.

Now, the military leadership has an orderly process that they use to take risk against the requirements of the QDR and that's an activity which is done by the military leadership, not by the civilian leadership and they assess where they can take risk, how

much risk they can take, what units don't need to be fully ready to go tomorrow morning and we build that into our budgeting process.

MR. MCKINNON: From the Army standpoint how do you sort of guarantee that the money is going to the Reserve component or fenced in so they're not getting raided by some other priority or – (unintelligible)?

MR. FORD: The reserve components, both the National Guard and the Reserves participate fully in the programming, planning, budgeting, execution process from the beginning to the end.

They are involved in all of our program review groups, they are involved in the budgeting process, and they're involved in reviewing the execution. We do execution reports quarterly and they're involved fully with that, so their interest, their needs, their requirements are on the list the same way all the active requirements are. And the primary way it's adjudicated is deploy, next to deploy, people next in the queue, and then special missions. And if you're not in one of those four categories, your chances of getting the additional resources you need are small.

MR. MCKINNON: Along this line, we're all wrapped up in Iraq and Afghanistan now, but there are strategic issues down the road with North Korea or Iran or China or Russia or who knows. Is everything we're doing now pretty much based on the current war and what are you doing about the future strategic basis?

MR. FORD: I'm in the supply business.

MR. MCKINNON: But you've got to have equipment to handle –

MR. FORD: I'm not in the demand business, so what we do is we take the demands as laid out for us by the policy folks and we take the resources that are available to us and we make the best possible match that we can so that the next unit to deploy is fully ready to go when it needs to go.

MR. MCKINNON: Okay, fair enough.

Admiral, in your testimony you talked about the integrated priority list. In our previous session here they talk about pretty much the same thing for the whole military, that the combatant commanders come up with their list of what they think they need and then it comes somehow it gets vetted around and you make your funding based on some kind of priority basis on that.

Do you believe on the integrated priority list that everything is an essential item, that when they put that together is that all essential and then if it is how do you cut it back, if it is the essential stuff that you need?

ADM BOZIN: Yes, sir. I mean the – when the combatant commanders come in with their list, I mean, it's vetted along with the other requirements that compete with the demands on the budget across the board, so just as the services aren't able to fulfill all the requirements within the limited resources that we have, we have to make those same decisions, so those are vetted.

The combatant commanders don't always agree and then it gets resolved at the OSD level, so there is a process as we go along to make sure that their requirements are heard and they're resolved during the process.

MR. MCKINNON: So it would be generally an accepted idea that the combatant commanders ask for really more than they need or do they – are these absolute needs that they are requesting?

ADM BOZIN: There are a lot of requirements that can't be met because of the financial constraints that we have, so I don't want to say that it's not a need that they have just like there are needs that the services need that we can't fulfill and we try to draw that line to balance the resources that are available with the requirements that we see. And as I stated, it will depend on how strongly they feel where we draw that line.

MR. MCKINNON: Okay. Obviously, there are tradeoffs that Secretary Ford talked about, about what people want versus what you can afford to provide. Do you all think maybe we're a little short on the GDP percent for supplying the military? You have to supply equipment, so you've got to spend money to do it, so is there enough money going around or should we be spending more money? Instead of 3.8 percent or something like that, should it be 4 or 5 percent?

ADM BOZIN: We're providing historically low percentages of GDP for national defense. That's again a matter for others in the government to promulgate, but we're at 3.8 percent. Historically, it's been substantially north of that – during World War II it was 40 percent.

There is a long history in this country of taking peace dividends before the hostilities end and we fear it may happen again.

MR. MCKINNON: As the – (unintelligible) – in charge or supplying, how does this sort of the world is flat kind of thing affecting your ability to come up with the necessary supplies or raw materials or that type of thing domestically? Are we becoming a prisoner of foreign countries supplying data and information and supplies to the United States?

ADM BOZIN: I'd have to say that's an area that's beyond my expertise and I really have no comment.

MR. MCKINNON: That's all I have, Mr. Chairman.

MR. PUNARO: Thank you.

Commissioner Stockton.

DONALD STOCKTON: Good morning and thank you all for being here with us today and most importantly for imparting the information that we need to try to carry forth our analysis of the situation.

And of course one of the things that Congress asked us to do is to assess the adequacy of the funding provided for the National Guard and the other Reserve components for several previous years. And so let's say for the last 10 years and I'd like to have an answer from each of the three services. Do you believe that the Reserve components were adequately funded for the last ten years? Army?

MR. FORD: Probably not.

MR. STOCKTON: Force.

GEN. FAYKES: Sir, that's a great question and that's one of the challenges the Air Force has had in putting together its fiscal year 2008 budget. We consumed 2.2 million man-hours trying to square our late budget with the resources that we have in order to fund all the requirements and all the responsibilities that we have.

In the United States Air Force, we've been engaged in conflict for over 16 years now, since 1990 when we first went into Southwest Asia through today. We're seeing some stresses in readiness and we're seeing some stresses in funding brought about by our legacy fleet and increase in costs across nearly everything that we do. In the last 10 years specifically our personnel cost have increased 51 percent. In the last 10 years the cost to operate our legacy fleet has increased 179 percent in terms of flying hour cost, depot maintenance cost, and contractor depot maintenance cost.

Those increasing pressures have really challenged us in building this FY 2008 budget. As we have attempted to ensure that we're able to not only fight today, but address the emerging threats of tomorrow, it's been very, very difficult to do that with our resources. We're very concerned not being able to fight in the future. We're seeing a proliferation of integrated air defenses that are being sold by China to countries like Iran. We're seeing a proliferation of advanced aircraft that are every bit as good as the legacy airplanes that we have and we're seeing that due to the recent China anti-satellite attack, that space is no longer a sanctuary for the U.S. military.

All of those things cause us to pause and say are we structured and resourced for the future? We can fight today. We are fighting today and our total integrated force allows us to do that very effectively. We need to ensure that we're resourced to fight tomorrow and I would say that we're not. I would say we're facing a crisis in modernization within the Air Force. We don't have enough money to ensure we recapitalize and modernize our aging systems. Our tanker aircraft are over 45 years old.

Our B52 bomber is 50 years old, our fighters are aging. Many of them are operating under mission limiting restrictions. Fourteen percent of our aircraft, over 800, are either grounded or operating under mission limiting restrictions.

So we are very worried about being able to provide the capabilities to the warfighter for the future. So as we attempted to balance and put the corner on this budget, 2.2 billion manhours, we balanced our resources across all of the capabilities of the United States Air Force, not by component, but by capabilities in all of our mission areas and we did the best we could with the resources that we have today.

ADM BOZIN: Sir, as you heard Mr. Ford say, we do have an integrated approach across the Reserve and active force as we build our budget, so if you're asking me if I believe that the reserves are underfunded, I will say that we have taken risk across the board, much as you heard with the Air Force.

You know, we have concerns also. When the average age of our aircraft is higher than the average age of our ships there is concern, so we do have concerns within the Navy, but we are taking risks across the board with the funding that we have available.

MR. STOCKTON: I am wondering are there some benchmarks that we need to be thinking about and I guess there's four specific areas that I'd like you to think about here for a few moments: one is personnel, including the full time support. Two is O&M, three is military – MILCOM. And four is equipment. Four major areas – so are there some benchmarks that we can be thinking about or be cognizant when we want to evaluate adequacy in funding? Start with the Navy.

ADM BOZIN: I'll take it in the order that you provide it. Right now on the active side we've been looking at the personnel issue.

Each year we have continued to right size the force. We're doing that along with the Reserve. As we've stated, we've come down on the active side. We're continually coming down and we've reduced slightly on the reserve side as we continued the right size, make sure we have the right personnel. As we have new technologies come on board, I expect that to continue.

The other part is that we have had a lot of – referring to the tooth-to-tail ratio – trying to get more tooth for the warfighter and less tail and we have continued to civilianize the functions that we can. So that's a lot of our reduction in our personnel. So funding-wise on the personnel side, I think we're in good shape.

One the O&M side, as the age of our aircraft and ships continually increase, that's a concern and those numbers continue to go up. Right now, a lot of the requirements from the war and the O&M funding are being met through the supplemental. How much of that will move as we try to put that within the budget and within the top line resources that we have is obviously a concern, so operations and maintenance, I would say that we could always use more there and so that is a concern.

Military construction – you know, you take a look at our recap rates. We are not investing as heavily as we probably like to in that. That puts more demands on our O&M side to upkeep those facilities. A lot of the facilities that we have were built back in World War II. We continue to maintain them so those are some of the tradeoffs, but the bottom line as Mr. Ford also said, personnel funding that's going to be a top priority. We have to get that, making sure we take care of the warfighter, so those are the other, you know, the O&M side, the readiness or the depot maintenance, those types of issues along with the military construction and it's a balancing act as General Faykes said. It's a balancing across the board.

And last, the equipment, I've already mentioned – we're taking risk across the board and those are all concerns as we go in. One of the issues with the reserves for our equipment and they're they are going to the total force. We don't want to buy specifically for the Reserves. Right now we're buying MH60Ss to go in and we have about five squadrons there too, which are Reserve. They're actually going to transition to those aircrafts first. When you look at our budget, it's not going to say MH60S reserve. It's an MH60, but it's going to Reserves and we've done that across the board with most of our equipment. So it's very hard to say.

And when you look at the total inventory of equipment that our Reserve force has, a lot of that was bought without differ – with APN, Aircraft Procurement Navy, not Reserve fund, so it's hard to break that out, but I think that we're adequately funded with equipment with the caveat that concern for the industry.

MR. STOCKTON: General.

GEN. FAYKES: Sir, let me say just for a moment that I thought you were a budgeteer at heart, because you were talking about it and how we look at it. But we look at our resources in four categories. We call them our pillars: people, readiness, i.e. O&M, infrastructure and modernization.

As the chief and the secretary laid out the priorities for our programming and budgeting efforts, they gave us the vectors that said first we need to ensure we're able to fight and win the Global War on Terror; two, that we continued to develop and take care of our airmen; and three to begin a significant modernization or recapitalization effort for the United States Air Force.

We built our budget on those four pillars and those four pillars give us the capability to – allow us to fund the capability of the global vigilance, global reach and global strike, which is the support we provide to the warfighter to fight today and to fight tomorrow.

As we looked at our modernization accounts, due to the fact that our airplanes were aging out, they were consuming more and more of our budget – it became clear that we had to take money from the limited resources we had and invest in modernization.

And so we made a decision in FY 2007, last year, to start a jumpstart effort for a modernization recapitalization efforts by, one, drawing down our people 40,000 people, reducing our O&M, basically \$6.2 billion across the fight of the Future Years Defense Program and contracting a contractor efforts to try to get money into a recapitalization.

Doing all of that allowed us to put \$1.5 billion into the modernization account, not significant growth, but a first step. We continued to do that with FY 2008. Now, without – not being faced with those challenges we might not have made those decisions, but they were tough decisions and if we had them we would not be making a significant effort to modernize our force.

Despite that investment in 2007 and FY 2008, our fleet is going to age from 24 years today on the average to 26 years. So despite the investments over the next five years, our fleet still gets older. You compare and contrast that to some of your experience and perhaps back in the Vietnam War where the average age of our fleet was nine years old. We're 24 years today and 26 years by fiscal year 2013. We're on the wrong side of this power curve and we need to be able to invest even more in modernization.

Hence, I would categorize that as the Air Force threat to budget that we're facing a crisis in our modernization accounts.

MR. STOCKTON: I believe we hear you loud and clear and of course we hope that Congress will hear you loud and clear also about the needs of the Air Force and the Navy and the Army.

Do we have time for an answer from the Army?

MR. FORD: Just briefly. The four priorities are people, training, equipment and facilities. What we tend to do is we meet the first requirement and the second requirement and our investments in facilities and equipment tend to come last. And when reprioritizing is done, it generally comes out of those accounts, particularly out of the equipment accounts.

And so like the Navy, like the Air Force, we are very concerned about the age of our equipment. We are now looking at tanks that are 30 years old and we're expecting to have them for another 30 years. Clearly, whether or not these will be the kind of weapons that you'll need in a new environment – but I think that's the condition of mission driven organizations. Mission driven organizations tend to take care of today and tend to underappreciate tomorrow, and I think the services are mission driven.

MR. STOCKTON: I thank all of you for your information and, General, like you, my background is Air Force and also it's economics. That's where I started, as you did, in college. Thank you very much.

MR. PUNARO: Thank you.

Commissioner Stump.

GORDON STUMP: Good morning. My first question would be for Mr. Ford – excuse me. With the Gates policy of 12-month deployments for the Reserve components in the Army, which was very much applauded by the National Guard and Reserves because of the problems we're talking about, employers support and so forth, a great program, but it obviously creates huge challenges for the Army.

Right now, I believe that the brigade combat team training is 139 days, which would be four and a half months, which would mean that you would have about seven months on the ground if you're allowed two weeks for demobilization and with the decision to reduce the brigade combat teams on the Army National Guard from 32 to 28 and only a seven-month boots on the ground, you're not going to fulfill your one and six requirement probably for doing that.

So talking to General Honore – I was with him a couple of weeks ago and he said if they're going to move a lot of this post-mobilization training up into the 12 months prior to deployment, which is what you need to do and I believe that there's been four or five brigade combat teams in the National Guard that had it been notified that possibly the next 12 months that they will go.

My question that – that doesn't come free of charge. Now, with Gates' memorandum, I don't believe there were any dollars attached to that. Now, are you going to have the Guard take that out of hide or where is this funding going to come from to do this additional training in order to cut this post-mobilization training back?

MR. FORD: That's a tough question, but a good question and one we've spent a lot of time working on. You're absolutely right: as you move the training of the Guard and Reserves and particularly the Guard back into the deployment cycle, where it isn't now, it requires additional training and that it requires additional money. We have identified the amount required for the balance of fiscal 2007 and we will get that money. Actually, I think most of it is already to the Guard and Reserve so that they can accelerate that training.

We will include that amount once we figure out exactly how much it is – we're still having conversations about exactly what units are going to get trained, when, with what kind of support. But once we get that done we'll include that in an amended request for the fiscal 2008 supplemental, because it will be related to G1. But you're absolutely right. As we change the mobilization policy and I mentioned this in my statement, there are additional financial requirements that are not built into the base budget or into the existing supplemental and we will have to get additional money. We will not expect the Guard or the Reserves to eat that out of hide.

MR. STUMP: Also the new model, the one in five for getting the people ready and especially years four and five. Is that put into the base budget now to do, because there is additional money that's going to be required for the ARFORGEN model.

MR. FORD: The ARFORGEN is in the process of being fully integrated into the budgeting process. I think the 08-13 was the first time we as an army made an attempt to fully incorporate it into the budgeting process. I'm not sure we have every dollar in there that we need, but that was the intent and so I think it is basically included in the base budgeting process at this point.

MR. STUMP: One area that – everybody talks about how much short we are on the equipment in the Guard and so forth, but probably one of the biggest cost has to be in the Reserve components are personnel. And one of the huge cost of personnel is full-time manning.

The Army has documented what full-time manning is required in both the Army, Guard and the Army Reserve and I think we're still in the 50s in the Army National Guard and the Army Reserve, so full-time manning is a huge problem, especially since we're moving from a reserve to a operational reserve. In order to get these soldiers ready, you've got to have full-time people that are on the ground there and of course, the Army Guard is short of everything, including the full-time manning. But I don't hear a lot of talk about full time manning when PBM or – (unintelligible) –came up, the first thing he did was okay, we're going to stop the ramp.

The 10-year ramp was only to take full-time manning up to 72 percent anyhow, which would make it still way below what it needs to be required, but how are you looking at – when you look at this – are you just leaving the full-time manning out of it or how are you prioritizing how we're going to increase this full-time manning to meet these additional requirements? I know you have to – I guess that will come out of – in my opinion, full-time manning comes under both personnel and training. In order to do the training you must have that full-time manning. So how are you looking at this in order to keep this full-time manning ramp going?

MR. FORD: Yeah, I have to admit I'm reasonably new to my position and I was not deeply involved in the budgeting process last year, so I was not involved in any of the programming process decisions last year.

What we have committed is we're going to provide the same levels of support to the active force and the Reserves, so that as the Reserves and the active force detail their requirements we're going to try and balance those requirements so that when in the ARFORGEN cycle a Reserve unit comes up in their deployment they are prepared to go in the same way the active force is. If that requires additional training support, then I believe that that's the G3, the training pegs requirement to put that requirement on the table and the it gets balanced with all the other requirements. But I'm not an expert on full-time manning.

MR. STUMP: Yeah, well having been there for years and trying to fight the full-time manning, it really is critical for the training because as you move into this cycle like for the next 12 months we are going to have increased training requirements, you're going to have full-time people to run that particular program, so that needs to be put in the budget process.

Let's move over to the Air Force a little bit. Have you done cost comparisons? Let's, for instance, take Shaw (sp) versus MacIntyre (sp). They both have block 50 F-16s now. I guess there would be a problem there because we're preparing an 18PAA against a 24, but have you done a cost comparison between the Guard and Reserve just out of curiosity? And of course we have technicians that run the maintenance in the Air Guard and got full time support over here in the Air Force, but between an active duty and a Guard squad for instance.

GEN. FAYKES: Sir, I'm not aware that we have done cost comparisons recently, but as we build our program and a budget we don't build it based on the foundation of what cost more and what cost less. It's about the capabilities that each of the components provide.

And since we're totally integrated with the Guard and Reserve, each of the components needs to be trained, equipped and organized so that they can plug and play anywhere we go around the world for worldwide missions or back home and perform those missions with it, whether it's active, Guard or Reserve. They're totally integrated, so we haven't structured a program or budget based on saying which component is cheaper; therefore, they get the mission. We're totally integrated.

As a matter of fact, several of our missions are tanker missions, are tactical – (unintelligible) – missions are predominantly done by the Reserve component, so I would say that, no, I am not aware of any studies we have done to see whether MacIntyre was cheaper than Shaw. MacIntyre as you know is one of our total integrated efforts where we have associate unit there with the MacIntyre Guard and that's one of our TFI, Total Force Integration, success stories.

MR. STUMP: Are you aware of any of the studies during BRAC, one of the arguments for closing a bunch of Guard bases was to go from 18 to 24 on the fighter aircraft and to go from eight to 12 on tankers to get those costs, because more is cheaper and so forth. Be aware of the studies that were done for BRAC.

GEN. FAYKES: Sir, I was not station at the Pentagon at that time, but I will be happy to take that for the record.

MR. STUMP: Okay, fine. One other – Secretary Gates decided that he would implement some of our recommendations and one of them was specifically the budget for civil support requirements, have – I think thinking about this myself I think that would be very difficult especially when you don't know what those requirements are going to be.

Have any of the three of you identified any additional requirements you must budget for for civil support?

GEN. FAYKES: Sir, I would take that from the perspective of homeland defense and homeland response. The Air Force is very, very engaged in those missions. For instance, Operation Noble Eagle legal is flown exclusively by the Air Force components and since September 11, 2001, we've flown over 46,000 sorties in homeland defense. Those are fighter sorties, those are tanker sorties, those are early warning sorties, so we're very, very engaged in performing those missions.

We resource those missions out of our baseline budget and so that roughly cost us about \$500 million a year to perform that mission from our baseline resources.

MR. STUMP: Has the Army come up with anything that they will have to fund that's you're not already funding that you can think of?

MR. FORD: There's one effort which we're currently engaged in, which is to make sure that we have appropriate equipment sets prepositioned for hurricane season, which we've been doing for the last two years to make sure that both in the horizontal and vertical states we've identified all the assets necessary for – I forget – category three or category four hurricane response and we do a planning drill before hurricane season starts so that we can test our ability to move equipment from one location to another. That we are not explicitly budgeting for, but we are funding every year.

MR. STUMP: (Off mike.) Is there anything in the Navy?

ADM BOZIN: Yes, sir. Right now, since 9/11 obviously the port security working with the coast guard, there are some aspects of that I don't have the exact dollar amount, but we have been working closely with the Coast Guard in that regard. That would be the total extent for us right now.

MR. STUMP: Great. Well, thank you Mr. Chairman.

MR. PUNARO: Okay, thank you.

Commissioner Thompson.

STANTON THOMPSON: I'd like to – Secretary Ford and General Faykes, your services are somewhat unique compared to the others and that you have two reserve components attached to your services.

Have you done any budget analysis that would either say consolidation is a good idea or maintaining two separate components is a better idea? And is there any work that your services are doing to look at having only one reserve component attached to your service?

MR. FORD: I'm not aware that there's been any Army discussion about that.

MR. THOMPSON: Okay.

GEN. FAYKES: Sir, I'm not aware of that either, but I would say that each of the components bring something different to the fight both in terms of what they contribute to our overall Air Force worldwide mission and then what they contribute to the homeland defense and subsequently the stateside mission. But I am not aware of any studies that would talk to having –

(Cross talk.)

MR. THOMPSON: Would your officers have the capability of doing that analysis or should we be looking at another resource to help us look at that cost analysis?

GEN. FAYKES: I think in terms of if you're talking about what the cost would be to perhaps combine the two components, I mean, that would be something that the Air Force, not the budget community, but clearly the Air Force could study.

MR. THOMPSON: Okay.

GEN. FAYKES: And our cost in economics group could do that.

MR. THOMPSON: Your cost in economics group would be a good resource for us to ask these questions. Okay.

We've heard already this morning and another testimony that in terms of expenditure or budgets you are focused on deployed forces first and that sounds patriotic. Many of our kids over there Iraq and Afghanistan should have a priority. Then preparing to deploy comes next.

But then we sort of talk about – (unintelligible) – space forces as kind of an afterthought or maybe third in terms of prioritization. We had some testimony that told us that 95 percent of the cost of the resident forces within a state for the National Guard are actually paid for by federal money, not by state generated funds, so I guess where I'm coming to is that it seems to me like although we hear that homeland defense, military support of civilian authority is our top priority.

If you look at published documents of all the Department of Defense and the services and NORTHCOM, you'll see that that's our number one priority except that it looks like an execution. It may not fit at the top. Am I not thinking right there, Secretary Ford?

MR. FORD: As I understand the quadrennial defense review requirements, we have three requirements that we have to meet: irregular warfare, conventional combat and homeland defense. I don't think one is prioritized higher than another, although

operations in one may be higher than in another. And so if you've got an operational tempo in one that's higher than another, that's where your resources –

MR. THOMPSON: But you don't have – the Army does not have – or may I ask the question: does the Army have a specific budget item that they forecast in execution that is allocated or dedicated to defense support of civilian authorities?

MR. FORD: I'm not aware of one, no.

MR. THOMPSON: Any of the other services?

GEN. FAYKES: Sir, I would just like to add that while we are heavily engaged in the AOR, our forces that are not in AOR are not idly sitting by. They are very, very engaged through each back with the missions they perform.

For instance, our B-2s at Whiteman Air Force Base flight combat missions from our bases Whiteman, which is why our infrastructure is a forced projection platform. Our strategic airlifters, C-17 and C-5s, fly missions from both the East and West Coast, from all of our bases each and every day. Our space assets, our folks who run our space satellites for the joint services are operating each and every day providing that reach back. At March Air Force Base, as an example, in California, the Air National Guard is flying predator combat missions in Southwest Asia from March Air Force Base, so all of our forces are involved each and every day whether they are deployed or back home in supporting the warfighter and they are very heavily engaged, so it's not just being in the AOR that causes you to be supporting the Global War on Terror or other missions that the Air Force supports.

MR. THOMPSON: I guess where I'm kind of coming from here. Make sure that I understand your jobs first. You said you were a supplier, am I correct? All right. So you're the guy that executes budgets? Okay. I wanted to make sure that I was thinking right.

So that the National Guard is going to be at least of what we have heard in testimony, it's going to be one of the basic tools for defense support of civilian authorities within a given state. And yet if I'm hearing you right, if we have a major event like the – (unintelligible) – say in Missouri and Tennessee and Kentucky where the magnitude is millions of dollars worth of effort to mitigate, it's really going to be a wedge into the existing budget pot. You don't have deliberate thinking put against that as a contingency fund or some – you see where I am coming from here?

It seems to me like the National Guard really doesn't fit into your budget execution process when it comes to what they would have as a role in mitigating one of those kinds of events. Am I wrong with that?

MR. FORD: I don't think we plan for the national disaster events in a budgetary sense. I think that's correct.

MR. THOMPSON: Okay.

MR. FORD: We don't have a wedge in the budget that says next year we expect \$7 billion worth of national disasters and will tap those accounts as needed. For Katrina, for instance – big natural disaster – after the money was appropriated by the Congress and then we charged the expenses associated for responding to Katrina to that appropriation.

MR. THOMPSON: So equipping and training and manpower is still principally focused on an expeditionary warfight in terms of budgeting and training and equipping issues and the manpower for domestic missions is still not specifically segregated and segmented in your budget.

MR. FORD: It's not specifically segmented and segregated, but we have been putting a tremendous amount of time and energy on getting the National Guard and Reserve units the dual-use lines of equipment, 342 items mostly trucks and construction materials and those kinds of things.

And those items have been very high on our priority list to produce and to distribute to the Reserve components. So we have put a lot of energy into that, but in terms of the operational cost for a natural disaster, no I don't think we budget explicitly for those.

MR. THOMPSON: Mr. Chairman, that's all I have.

GEN. FAYKES: Sir, if I may chime in. From the Air Force perspective, because we are totally integrated, I would offer that the capabilities that the Reserve component provides are the direct capabilities that they are trained to for the federal mission; i.e., whether it's airlift, whether it's security forces, whether it's civil engineers, any of the capabilities that we use and realize the Guard and Reserve for in our federal mission are directly applicable for the homeland defense or the homeland responsible for security mission.

So while there may not be a separate item in the budget that says this is for homeland security or civil affairs, it's the capabilities that we train for, the capabilities that we budget for that are directly applicable to the homeland mission and the state mission. So our people are trained for the federal mission and then they're able to do the national or the state mission.

In terms of resourcing, if there is a disaster clearly all of the services would need additional funding through a supplemental to be able to support that, because that would be something that would be an emerging requirement that nobody could have forecasted for or budgeted for.

MR. PUNARO: Thank you.

We'll next call on Secretary Ball and, Secretary Ball, I apologize because you had mentioned to me yesterday evening that you were going to miss the first panel and I appropriately called on you and when you weren't there we ran you UA on the unit diary. So we'll make that correction and notice your presence. So Secretary Ball.

WILLIAM BALL: (Off mike) – and overlooking my delayed arrival and I appreciate the fact that the chairman saw fit to call the panel of these distinguished individuals.

In my experience what you do in the financial management business is among the most challenging and difficult assignments that we ask those who serve and certainly you're not accustomed to getting glory and attention, which goes to others, but I don't think there are many who carry the burdens that you do in terms of a long-term national security interest of our country.

So thank you for serving and for being here and for the assets that you bring to these deliberations and for the fact that you appeared before us without your customary body armor, which I am sure you have to wear in around the halls of the Pentagon.

I was asked to raise this question of the Special Operations Command model which we have talked about a lot in our own internal deliberations and I would like each of you to give me a comment on the wisdom, perhaps the benefits, challenges dealing with the adaptation of some derivative of this model for funding a reserve component equipment. Now, I happen to be serving the Pentagon at the time. This was adopted in the late 1980s and it was so.

Admiral, your predecessors took great exception to this notion. I took exception of the notion at the time. I made the argument that in the Navy Financial Management, there were instances of such problems as the fleet ballistic missile problem, which enjoyed significant National Guard attention and were funded within the balance program of the Navy budget process over a 25-year period.

But, nonetheless, as an initiative of the Congress not the Defense Department, this model was adopted and put into place. You now have 15 or 18 years of experience with it, so I will appreciate your comment as to its applicability to the funding of reserve component equipment specifically inasmuch as that is one of the issues that we have dealt into and received a great deal of testimony about. So I'd like each of you in turn to make a comment about that and I would like you to be candid about perhaps your views of the pluses and the minuses of the way in which this is operated over in the timeframe of your experience.

Mr. Ford?

MR. FORD: My experience is brief, so I won't offer a lot of great detail except to say that for the vast majority of special operations equipment, the Army is the

procurement agent and to the extent that equipment needs to be modified for special operations use then it is that modification which is taken care of by the Special Operations force.

So from a procurement perspective, the ability to have one procurement agent provides you some benefits of scale, some benefits of commonality. Most of the special operations pieces of equipment are not so unique that they cannot be modified from other Army equipment, so I'm not sure with regard to equipping that there is much difference between the special operations model and what we currently do with the Guard and Reserve today, which is to the extent that there are specialized capabilities – equipment capabilities that the Guard requires, then that is the equipment sets that they are – we procure and assign to the Guard.

And so I think it's – to the extent there is special modifications – I guess the Guard would make them. I'm not aware of any special modifications except for the fact that there is this 342 lines of dual-use equipment that are more likely to be used by the Reserves than by the active force.

GEN. FAYKES: Commissioner Ball, I'd be wary of the unintended consequences of something like that. While the model may work for Special Operations Command, for the Air Force, similar to what Secretary Ford said with the Army, the Air Force procures the equipment for Special Operations Command, specifically C-130s, so we buy the C-130s today and they modify them for their special mission.

I would be worried about the unintended consequences of doing that within the Guard or Reserve where potentially we could then be developing different kinds of systems, where today we're totally integrated across each aircraft type and any of its components can fall in on each other's aircraft and fly them and operate them as part of an integrated Air Force providing air power and air dominance to a warfighter.

So anything that would create different categories of aircraft that are inconsistent with what the Air Force brings to the warfighter would be something that we'd be worried about.

MR. BALL: We've got two issues there it seems to me. You've got number one, the equipment itself, which the definition of the requirement and then secondly the – (unintelligible) – I mean, I understand that issue – even the larger question seems to me as the balancing of those priorities against other requirements, so it's both in my view the priority issue as well as the definition of the equipment.

Admiral, do you have any comments?

ADM BOZIN: Yes, sir. Well, as I mentioned, there are procurement for the reserves that are procured along with the active force, so they are already integrated not being a standalone as the other two services mentioned. So our budgeting process for our procurement is in line with the active.

MR. BALL: Let me just ask. If you were going to start, if you were looking at this issue and looking at this question and were challenged to think up an alternative approach – this may be somewhat of an unfair question, but do you have any suggestions that this commission might consider for ways in which this question could be addressed – recognize we're not the appropriations committee, but we're in a position to make some recommendations of how in terms of defense management and setting the priorities changes to the status quo might be given consideration by the secretary of defense.

So in this – if not the so-called model, are there other changes in terms of the transparency and oversight of this equipment issue that affect your business that you should take a look at or is the status quo from your perspective satisfactory?

GEN. FAYKES: Sir, I would be happy to take that question. Since the Air Force has been involved in the Global War on Terror, we've lost over 131 airplanes since 9/11. Forty-two of those are lost in the AOR and the others have been lost in training to prepare to go into the AOR to – so airmen are ready to fight.

We haven't been able to get the resources through the supplementals or through other revenues to recapitalize those airplanes, so I would say from a total force perspective we need to get the additional resources to recapitalize those losses so that all of our components can continue to train, can continue to operate in the Global War on Terror and provide air power capabilities to the combatant commander, so from the resourcing perspective we need to ensure that our air component, our air assets remain relevant into the 21st century.

And as our fleet begins to get older and older, we're seeing that it becomes more challenging to remain relevant. Some of our older tankers – we don't send them into the AOR because they're not capable. They can't take full fuel loads. We're concerned about being able to fight tomorrow with the fact that China is developing new aircraft. They just unveiled a J10 aircraft that's a fourth generation aircraft as capable as many of our legacy systems. They're developing a J-12 aircraft, which is an aircraft that has fifth generation capabilities such as stealth and super cruise.

So we are concerned – very concerned in being able to not only fight today, but get the resources to modernize our airplanes so we're able to remain relevant and be the most dominant air power into the 21st century.

MR. PUNARO: Thank you, General.

MR. BALL: Mr. Chairman, unless there are others that wish to raise a question on that point – I know we haven't deliberated on this, but I must say I think the comment –

(Cross talk.)

ADM BOZIN: Can I make one comment on that? Again, it's the equipment – obviously is a concern. You know, the process is relatively slow for us to get into equipment, but there are times when we're able to turn things, like the MRAP vehicles where industry is turning to and we're going to get those very much needed vehicles out into the field to help off the Marines and actually the Army and Air Force and Navy.

So streamlining a process – we're trying to work that, but being able to get the vision and moving forward to procure things like that in a timely manner is my concern.

MR. PUNARO: Commissioner Dawson.

RHETT DAWSON: Thank you, Mr. Chairman. I'm going to follow up on Secretary Ball's line of questioning, but take a little different.

One of our tasks is to make recommendations to improve oversight and we're finding that we have to go to multiple sources for the data that relates to the various active components and reserve components and we have fewer problems getting active components and we have greater difficulty looking at the data that we get for the reserves. And, Mr. Secretary, in your statement, prepared statement you talk about in fairly emphatic terms about strongly questioning against the direction that Secretary Ball was asking you about.

Although he put it in the context of Southern Command, I'm going to take it out of that context and just generally try to have a conversation with you for a minute about why we can't disaggregate better and make more visible – visibility was a key word in the first panel's conversation this morning – it's even come up some times in this panel and what you're trying to do as an end product is to try to make more accessible the information to the decision-maker up on Capitol Hill, but also internally in the department, so you're trying to get the tradeoffs and you're trying to make sure that your process of desegregation I presume does not get in the way of trying to get the job done or trying to get – but you talk – and I must confess to you I don't find very compelling your arguments against this.

You say you might lose visibility of total force requirements. Yeah, but you might get better visibility into the components and then you can reaggregate and get a better fix on what the total force is. You talk about foregoing economies of scale. I am completely lost there how a budget exercise necessarily would lose economies of scale. Maybe you mean in the context of actual operationalizing of it. I grant that.

And it might complicate the integration of active and Reserve. Well, I guess it could, but at least you'd know what's oranges and apples and bananas. You might be able to get a greater visibility into it and then you also talk about how readiness could be affected (and smooth ?) operational planning in theater. All those I don't find very compelling, frankly. I find them not really directed at the question, which is why don't we have an easier way to access today the reserve components and the active components that we do today and make it more traceable and more visible.

I mean, is it – I don't mean to elaborate this too much, but is it – are you afraid they're going to find something out and think they own it and if they think they own it they're going to want to keep it and if they keep it, it's going to deny you flexibility? Is that what's really at the bottom of this?

MR. FORD: I have to say that I am a strong proponent of visibility, of the capabilities, the piece parts of those capabilities of all the components of the Army and across the Department of Defense.

So this is not about being able to understand. What those comments were addressed towards was the procurement process itself. If there was a separate procurement process, separate procurements for Guard equipment and for regular Army equipment, you might end up with two standards of equipment – different capabilities – the Guard producing, purchasing different capabilities than the Army.

Let me give you an example of how that would impact this operationally. We pre-placed two large pre-placed sets of equipment in Kuwait. The way we were able to undertake the surge was to assign units that were sent to the theater – those equipment sets – without regard to whether they were Guard units or active units or Reserve units. They were able to fall in on those equipment sets. They were the equipment they had been trained on, they were the equipment they were comfortable in using.

Similarly, we have had Guard units leave substantial amounts of equipment in theater, which has allowed us again to lower the cost and improve the deployment schedules of many units. If we had different sets of equipment that units were trained on and they could only use the equipment sets that they understood, it would hinder – and I'm really speaking in an operations context – this is not my area of expertise, but I am trying to give you some sense for why that is in the testimony. So it would it affect the operational readiness of the units, the ability to – (unintelligible).

MR. DAWSON: And that was not the context – I read what you stated in your testimony. I read it as stating that you objected and cautioned against a budget process improvement that would allow greater visibility into the allocation of resources. You talked about different procurement processes. I've got – I'm with you and I can see where one might lead to another, but the way this reads to me and the way that Secretary Ball's question was directed was what's wrong with having a separate appropriations account that makes it more visible or what's wrong with having a separate budget process?

I think you've got a budget for civil support requirements. You clearly have to do that and maybe someday you might do enough work on the historical data to figure out that you might want to be, put money into natural disasters because they are going to happen. We don't know how big they're going to be, but there's going to be at some level an expectation that you're going to have to come up with some money to do that. So it would avoid surprises and make more visible the whole process.

MR. FORD: I would say that the constraints under which we work in the current environment where we know we're going to have combat losses, we have been unable to get Congress to recognize the fact that combat losses are inevitable and there should be some funds identified for those combat losses in advance. We've lost nearly a brigade's worth of helicopters - rotary wing assets. We have not yet received the first rotary wing aircraft for those combat losses. We are now four years into the war.

So the problem of funding anticipated expenses is one that affects far more broadly than just the homeland defense/natural disaster area.

MR. DAWSON: My time has expired, but if you after reflection have any further thoughts about improvements along the line of what I think is a different understanding to what you intended to say - I am sure the commission would love to hear more from you.

MR. FORD: We'll be happy to look at it.

MR. PUNARO: Commissioner Sherrard.

JAMES SHERRARD: I just have one question of clarification I might ask you. If I'm hearing each of you right, and I'm going to talk manpower not equipment, but they tie together because we talk about equipment as dual use and I am thinking of manpower as dual use also, but all the manpower that each of the services have today are all "wartime tasked," quote, unquote. They have capabilities that's required out of the various old plans that we're supporting. The (truth ?) - in other words, there's nothing that's peacetime required out there that we're funding today in large numbers. There may be onesie twosie, but I'm talking in large numbers, because what I'm driving at is if a service changes that structure that they deem is appropriate to meet the old plans that this nation needs, how do we prevent that from running into conflict with what the governor sees that he or she may be in that particular state to do their missions that they have these assets before, but suddenly now - and I'll use the Air Force - Frank, if you will forgive me - but if we suddenly said we don't need X number of area porters and we take them out of the Air Force structure.

How does that prevent us - or what process or is there a process that prevents you from running head-on into the governor saying wait a minute, you can't take three area port squadrons from my state because I utilize these individuals for A, B, C and D?

What I'm really trying to find out is has any dialogue started yet, because I see DHS as having to step over and say oh, no, we need X number of bodies in state A, B or C, which hasn't been done yet either that we can find out as far as defining what is that baseline that each state needs to do their domestic missions if you in fact have a requirement to change something from the service perspective to do its wartime mission.

Am I confusing you?

GEN. FAYKES: I think I've got the question, sir. Thank you. And that would be a definite valid concern from the state governor's perspective. What I would say is, as you know, the Air Force is fully committed in our AEF structure where everyone is available for deployment.

Due to the technology and the capabilities we have today, many of our people are deployed in place supporting the warfighters. For instance, whether you're operating space systems to provide reach-back communications in AOR, we consider those people deployed in place. Whether you're operating Predators or Reapers or Global Hawk aircraft from the continental United States, those are directly supporting the warfighter and we do those from the United States, so a lot of our missions that are directly in support of combatant commanders we do from our home location.

As a matter of fact, a lot of our total force initiative areas that we're looking at are really very good missions for the Air National Guard in terms of a joint cargo aircraft, in terms of Predator and in terms of ISR types of things, fusing data, things that we can do in the continental United States and not have to deploy people forward. I understand your question and certainly that would be a concern for the governors.

Now, one of the recommendations that the Commission made was to more involve the Department of Homeland Security with the Department of Defense and as you saw in Secretary Gates' letter that was dated the 10th of May, he has mandated that that be done in terms that the Department of Homeland Security coordinates with the Department of Defense, coordinates with the chief of the National Guard Bureau to ensure all of those requirements get vetted inside the Department of Defense through the JROC, the Joint Requirements Oversight Council, through the programming budgeting process and with oversight of the Joint Staff.

So I think the recommendations that the Commission made that now the secretary has acted upon gets to the heart of the concerned that you have raised, sir.

MR. SHERRARD: Okay. Go ahead, Gordon, I'm sorry.

MR. STUMP: Yeah, I'd like to follow up on that a little bit and a great example is BRAC. One of the concerns of the governors if of course lift and during BRAC the Air Force took most of the C-130s and sent them all to Little Rock and during the BRAC testimony, when NORTHCOM was queried on that, they said did the Air Force discuss with NORTHCOM the ramifications of the movement of the C-130s? And the answer was, no, there was no discussion there and as a result the BRAC Commission put the C-130s and left them where they were, but I think here was an example of what Commissioner Sherrard is saying that here it was a requirement that you're looking at a budgeting process here that you're going to save money by putting all these C-130s in one spot and it didn't appear to be a lot of thought given to the homeland security mission when you take these away from those different states.

So I am hoping that the Air Force has put in their process in the future, that if they're going to look at somebody's budgeting processes, that they will start looking at the Homeland Security mission for something specifically like the placement of the aircraft for homeland security.

GEN. FAYKES: Yes, sir. And I believe that the direction that the secretary of defense has given to the departments as a result of the Commission's recommendations hit on that exactly. I can't comment on the BRAC deliberations because I wasn't part of them at the time, so you're catching me a little bit off guard on that.

MR. PUNARO: Okay. We're ready to close. Anybody else?

MR. STOCKTON: One quick question. We've focused an awful lot on the Army. I'd like to bring a little focus just for a moment on the Air Force. General, could you say of the total Air Force capabilities, is there a figure out there they would describe the Reserve component's contribution to the total force in the Air Force in terms of capability?

GEN. FAYKES: Sir, that's a tough question. As a budget guy, I'd hazard a guess on the capabilities that the Guard and Reserve provide, but a couple factors – as I mentioned earlier, for instance our tanker capability – over 50 percent of that capability resides in the Reserve component and the tactical airlift capability over 50 percent of that resides in our Reserve component.

In our hurricane hunting, 100 percent of hurricane hunting is done in the DOD by the Reserve component. Our Joint STARS Mission at Robins Air Force Base as you know is done by the reserve component, so it would be hard for me to categorize what percent is Guard and Reserve because we're so integrated across our Air Force that we don't tend to look at each component and say what is the percentage of the support you provide. We're an integrated Air Force; we're all airmen providing combat capability to the combatant commanders regardless of the patch on the uniform or the unit or a component that our capabilities reside in.

MR. STOCKTON: But is it fair to say that the Reserve component makes a substantial contribution to the total force – a very substantial contribution? Is that right?

GEN. FAYKES: Sir, that probably doesn't say it firm enough. I would say the United States Air Force could not function today without the Air National Guard and the Air Reserve – the Air Force Reserve contributions. We're so linked – we are seamlessly integrated. We could not do our Air Force mission without the Reserve component.

MR. STOCKTON: Now, going to the budget part of that, in your prepared testimony here you say that the ARC, the Air Reserve component is about 11 percent of the budget of the Air Force. So would you agree that that's good value for the American taxpayer?

GEN. FAYKES: I would say that's excellent value for the American taxpayer for what the Reserve component brings to the fight. Yes, sir.

Clearly, we would all like to have additional funding for all the things we want to do because we need to modernize our Air Force, which includes the Guard Reserve and the active, so we can bring a new weapon systems that provide the new combat capabilities into the 21st century.

MR. STOCKTON: Actually, growing the ARC might be of even greater value to the American taxpayer possibly, too.

GEN. FAYKES: Yes, sir, that could possibly be if we're able to get the combat capability in terms of modernized aircraft to bring to the fight and the additional resources to go along with that.

MR. STOCKTON: Thank you very much.

GEN. FAYKES: Thank you, sir.

MR. PUNARO: Well, we thank all our witnesses here this morning. Your testimony has been extremely helpful and informative. We look forward to staying in touch and we thank you for your great service to our country in wartime with your distinguished service here in government.

So the Commission will stand and recess till 1:30.

(End of panel.)